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**HOUSE COMMITTEE ON HOMELAND SECURITY
Subcommittee on Investigations**

**TESTIMONY OF JOSEPH C. BECKER
SENIOR VICE PRESIDENT, PREPAREDNESS AND RESPONSE
AMERICAN RED CROSS**

Good morning Mr. Chairman, Members and staff of the Committee. The topic of this hearing – waste, fraud and abuse – is a very serious topic for the American Red Cross and for those who support our charitable mission. We appreciate the opportunity to share our story with you this morning.

It is appropriate to begin by giving you some background of our individual assistance efforts over the last years, including the recent evolution of our client assistance program.

After that, I can speak to our most recent experiences in the 2004 Florida hurricanes and the important lessons that guide our improvements after the 2005 season.

I will conclude by sharing the latest news on the controls and procedures that we have already implemented that will assist us in guarding against waste, fraud and abuse as we move deeper into the 2006 hurricane season.

But before I start, on behalf of my colleagues and friends at the American Red Cross, allow me to begin by saying this:

The American Red Cross is ready for the 2006 hurricane season. Over the past six months, we have reviewed the things we did well in the 2004 and 2005 seasons and improved upon those successes. We have also taken a hard look at those areas where we must improve our response and we've addressed our shortcomings.

The American people can continue to rely upon the Red Cross to deliver our promise of neighbor helping neighbor. Our legendary corps of volunteers is ready. We are working closer today with our colleagues in the nonprofit, charitable and faith-based communities to improve our reach. We are better coordinating with Federal, state and local officials. And, we are pre-positioning more supplies and building greater capacity in key states before the storms hit.

I am very pleased to share with you today our plans for the coming season as we address our goals. For as we all know, the next disaster may not show up with advance warning on our weather radar screens. We do not simply wait for June 1 to be ready for disaster response. For the American Red Cross, we respond each day, every day.

The Red Cross and Individual Assistance: A Background

First and foremost, it is important to understand the elements of Red Cross assistance and how they work together to serve our clients as well as integrate with the assistance of state and federal programs. Our first priority is to ensure that those affected by disaster have a safe shelter and are provided with the basic necessities of life. In addition to shelter, we strive to provide first aid and nursing support, food, toiletries, bedding and other essential items of health and welfare.

The next priority is to then assist families to take the first steps toward recovery. This is the purpose and concern that individual client assistance is designed to serve. It has long been the case that while shelter, feeding and the distribution of critical items are sufficient to stabilize individuals and families, it is not sufficient to meet all short term emergency needs necessary for disaster victims to begin their individual road to recovery. Critical items of assistance such as resources for food, changes of clothing and bedding bridge the gap between mass care activities and the receipt of state and federal recovery assistance. This allows a family a modicum of independence and a flexible resource for the types of essential items mentioned above.

Ultimately, within the framework of disaster assistance provided by other agencies, as well as state and federal programs, individual client assistance helps bridge the gap between mass care activities and loans, temporary housing, and other needs assistance.

To properly understand the challenges and successes of individual client assistance, it may be necessary to review a bit of the background.

Individual assistance to disaster victims is one of the cornerstones of the American Red Cross Disaster Services program, beginning with Clara Barton at the Michigan Forest Fires of 1881. Throughout history, individual assistance has evolved to meet the ever changing needs of those affected by disaster events. The fundamental drivers of change in this program have been consistent over time and include the needs of victims, the existence of or changes to state and federal programs, and the evolving nature of disaster (such as terrorism and mass casualty events). However, certain principles have remained consistent – that disaster relief is based on verified need; that such assistance should mitigate suffering; that similar needs should be met with similar resources; and that clients are ultimately responsible for their own recovery. Red Cross programs are fundamentally based on these principles.

Historically, Red Cross individual assistance consisted of items to repair homes, furniture, clothes, etc. Prior to the advent of governmental programs, the Red Cross often dealt with the entire range of response and recovery needs – food, clothing, and other essential items to home repair, occupational supplies, medical needs, and income-related support such as cloth, sewing machines, seed, and livestock.

The ongoing need for flexibility to adapt continues. More recently, the Oklahoma City Bombing and Terrorist Attacks of 9/11 found victim's verified needs related to loss of loved ones and economic survival pending receipt of benefits, not loss of their personal possessions. Individual assistance was quickly adjusted to ensure survivors emotional needs were met with extensive mental health support and continued financial assistance, in order to enable them to maintain their homes pending receipt of government and personal assistance.

While individual needs change over the years or by the type of disaster, standardization of assistance to meet the verified basic needs of disaster victims remains constant. In essence, similar needs are addressed with similar assistance. This application of the intent of the policy and charter are applied daily, disaster by disaster. Assistance has continually been updated to avoid duplication as government assistance and assistance from partner agencies and organizations has increased. In fact, referral to the programs of other organizations and assistance in connecting with these providers is a fundamental part of the Red Cross program.

Assistance has been provided in multiple ways, depending on what is needed and available in the area of the disaster event. Individual assistance for essential items was originally provided in cash or a credit with a store. This was followed by checks, and then by disbursing orders (which are similar to purchase orders). Today, financial assistance is most often provided with debit cards. Other vehicles such as gift cards, disbursing orders, and checks, are used as back up mechanisms or when power is out for extensive periods of time. How the individual assistance is actually provided is based on the infrastructure in the disaster area and the conditions of merchants and stores. If electricity is not available, debit cards are not a viable option.

To enhance the dignity of our clients, reduce administrative costs occurred by the organization, and provide for greater oversight, debit cards are now used as the primary form of assistance. These cards are easy to use, can be replenished, carry no stigma, and make disaster clients indistinguishable from other consumers. These cards are intended for food, clothing, bedding and other essential items, and they allow clients to take responsibility for their recovery.

While our fundamental commitment to meeting the emergency needs of disaster victims remains constant, the range of events to which we respond demands that we have more than a single model of service delivery. Given that our organization has now experienced the differing demands of terrorist / mass casualty type events (9/11) as well as catastrophic natural disasters (Katrina) and is currently challenged by the possibility of pandemic disaster (Avian Flu), it is clear that a single service delivery model or program is no longer sufficient to meet the demands and risks of our current environment. A large part of the Red Cross success in Katrina was the ability to adapt and adjust our assistance to meet individual and basic needs immediately. Moving forward, the American Red Cross will continue to develop a small number of standard models for use in our most likely scenarios, and will prepare ourselves to execute the model or models most appropriate to the event.

Katrina: Lessons Learned

Mr. Chairman, the Red Cross provided aid and comfort to over 1.4 million families after the storms of last year.

Thanks to the generosity of the American people, we provided an average \$1019.00 per family in emergency financial assistance. This is not money provided to replace all that was lost – but to address urgent need.

We provided shelter to nearly 500,000 hurricane survivors (3.4 million shelter nights) in nearly 1,100 shelters in 27 states and the District of Columbia. And we served 68 million meals and snacks.

A Herculean challenge was getting financial assistance as quickly as possible to an unprecedented number of people who left their homes with little or nothing and in many cases would have no homes to which they could return. As stated previously, the largest number of families to which the Red Cross had ever provided assistance was approximately 73,000 – those served during the four back-to-back hurricanes in 2004. By contrast, demographic and census information from the area affected by Katrina led us to estimate that more than one million families, most of whom were bereft of all of their traditional social support systems, would need financial assistance.

The challenge of raising enough money to provide assistance to an estimated one million families was, frankly, daunting. Initial disaster assessments and demographic information led us to estimate that, with average assistance of about \$1,000 per family, we were facing financial assistance expenses of approximately \$1 billion. We had to make the difficult determination whether we would – or could – provide this magnitude of financial assistance. Red Cross leadership, together with our Board of Governors, rapidly decided that the tremendous needs of the evacuees demanded that we act. Soon, it became clear that dollars were going out at a fast rate. We had to either suspend our emergency financial assistance or borrow funds. We chose to borrow the money – over \$300 million – with the confidence that the American public would see our efforts as worthy and support the work we were doing. This has proven to be the case.

The mechanisms for getting the financial assistance to the people who needed it without delay posed an additional set of challenges. During traditional responses, trained American Red Cross volunteers and staff, conduct disaster damage assessments, meet with survivors to determine their needs and provide assistance accordingly. We often do home visits to confirm damage and determine necessary assistance. This type of detailed assessment would clearly be impossible for many months after Katrina and Rita. We had to choose between two options: we could attempt to verify damage house by house and thereby delay assistance to those who so urgently needed it, or we could utilize the best information available regarding damaged areas and speed the provision of our assistance. By choosing the latter option, we knew that we ran the risk of putting assistance in the hands of potentially unscrupulous individuals not affected by the hurricanes; we concluded that it was a reasonable business risk and mitigated the risks as possible. We considered the need to help the vast numbers of families in desperate and legitimate need without delay. Using satellite images and fly-over photographs, we determined specific ZIP codes where the devastation was obvious and began to disburse the maximum assistance to these families based on family size. It was our goal to get money in the hands of survivors as quickly as possible. The fact that fraudulent claims for assistance could occur was to be addressed with an aggressive “no tolerance” fraud enforcement policy which we discussed with federal and state law enforcement authorities.

Another hurdle was the logistics of getting cash into the hands of so many people spread across so many states. Methods used in the past would not accommodate the unique aspects of this epic disaster. We set up an 800 number and call centers around the country and partnered with Western Union to provide immediate cash assistance. A critical moment came when we realized that it could take days and weeks to bring these systems up to a scale that could accommodate the number of families in need of assistance. That left us with another difficult choice: delay assistance to every disaster victim until we had the capacity to effectively serve them all, or proceed with the capacity we had, getting funds into the hands of thousands of families right away and working diligently to add to those numbers as quickly as we could scale up our systems. We chose to help those whom we could without delay, while striving to serve all who needed us. We sincerely regret that there were long lines and a lot of busy signals, but we believe that we made the right choice. In the six weeks following landfall, the Red Cross put over one billion donated dollars into the hands of families who desperately needed it without delay.

As part of our lessons learned process, we are striving to ensure that we will eliminate long lines and mitigate fraud and abuse moving forward. Our Client Assistance System (CAS) software has been modified to provide a single system of record to support the deliver of assistance to those in need. Enhancements to CAS and an upgraded information technology infrastructure will allow the Red Cross to speed emergency assistance to one million affected families within a 10-day period, with the capacity to process a total of two million cases over the long term. We have pre-stocked one million cash enabled client assistance cards (CAC) so that the cards can be efficiently distributed to families displaced by large-scale disasters.

Soon after Katrina's landfall, the Red Cross expanded an existing Special Transient Housing Accommodations Program, in cooperation with the Federal Emergency Management Agency (FEMA) and Corporate Lodging Consultants (CLC). This program covered the cost of storm victims requiring emergency assistance staying in motels or hotels where other accommodations were not available. Over its duration, this program housed more than 700,000 evacuees in every state in the nation. This innovation alone provided critical and immediate shelter in addition to the hundreds of traditional congregate care shelters established across the nation. As agreed at the inception of the program, the Red Cross transferred administration of the program to FEMA on October 24, 2005.

The American public is the client to whom the Red Cross ultimately delivers services. The monumental challenge of providing immediate relief and initial recovery assistance in the wake of the devastating 2005 hurricane season tested the spirit, determination and cooperation of America. In the face of incredible demands, the American Red Cross and the American people rose to the occasion and provided care and comfort to millions of people with nowhere else to turn.

Fraud, Waste and Abuse

The Red Cross treats its obligation to deter and detect fraud or abuse with the utmost seriousness and where appropriate seeks prosecution of fraudulent activity to the fullest extent of the law. To stop those that attempt to cheat the system, the Red Cross participates in the Department of

Justice's Hurricane Katrina Fraud Task Force, which also includes members from the FBI, the United States Secret Service, the Federal Trade Commission, the Postal Inspector's Office, and the Executive Office of the United States Attorneys, among others. The Red Cross is assisting in hundreds of investigations now in progress. Every resource, whether in-kind, financial or people, is precious to the Red Cross and we are taking every measure to aggressively pursue any illegal activity. To date, there have been 76 indictments and 55 convictions.

At this time, we are investigating 7,109 cases of suspected and actual fraud. These represent a combination of cases turned over to law enforcement and cases being investigated internally. We estimate the potential of some \$9.5 million in cases stemming from this fraud. While we recognize that these numbers are very high, it is important that we put them into context. While no misuse or waste of donated dollars can be tolerated, fraudulent activity will likely be less than one-half of one percent (0.5%) of total operational costs. It is important, however, that this is put in the appropriate context. To add further context, a 2005 report by the Association of Certified Fraud Examiners entitled "National Occupational Fraud and Abuse" cited the industry fraud average at 6% of revenue collected.

Additionally, there were instances where individuals or families received duplicative assistance that was neither fraud nor abuse on behalf of our clients, but rather a simple oversight or human error. I am pleased to report to this Committee today that as of May 1, 2006, the American Red Cross had collected \$2.3 million in returned assistance from clients who had received duplicate payments.

American Red Cross: Ready for 2006

To better prepare for the coming season, and to mitigate fraud, waste and abuse, we have undertaken a long list of projects. For this hurricane season, we have created:

- Client Assistance System (CAS) software and reporting enhancements to provide a single system of record to support the delivery of assistance to those in need. Enhancements to CAS and an upgraded information technology infrastructure will allow the Red Cross to speed emergency assistance to one million affected families within a 10-day period, with the capacity to process a total of two million cases over the long term.
- Cash-enabled client assistance cards (CAC), which can be used as a vehicle for providing emergency assistance. One million National Headquarters CAC cards will be pre-stocked so that the cards can be efficiently distributed to families displaced by large-scale disasters.
- Emergency assistance call centers that can be used during large-scale events to handle a capacity of one million cases in 10 days, or 100,000 completed cases per day.
- A web-based shelter management application based on the Coordinated Assistance Network (CAN), developed in conjunction with FEMA and the Department of Homeland Security. When fully implemented, we will have the ability to track shelter inventory, facility survey data, and population counts of the shelter population nationwide.

- Fourteen dedicated Red Cross staff to coordinate closely with state emergency management agencies in high-risk areas, including the states of Louisiana, California, Mississippi, Alabama, Florida, Tennessee, Georgia, Maryland, Virginia, North Carolina, South Carolina, New York, Arkansas, and Texas.
- Increased stockpiling of supplies (food, cots, blankets, comfort kits, etc.) in key risk states to enable the Red Cross to serve one million meals a day and to shelter 500,000 people per day in the initial days after a disaster strikes.
- Improvements to the Disaster Services Human Resources (DSHR) system to track in real-time staff assigned to relief operations and strengthen the process used for registering spontaneous volunteers. The DSHR system software is also being modified to accommodate DSHR ID Smart Card technology. These improvements will provide better information about available resources.
- Addition of six on-staff disaster relief operation directors to provide leadership to major relief operations as well as mentor and coach chapter and multi-chapter relief operation directors. This will improve the skill sets of administrators and managers in the DSHR system.
- Development of national partnerships that chapters can implement on a local level to engage underserved groups in their communities.
- Delivery of "Introduction to Disaster" training to over 400 members across six NAACP conferences.
- A "Disaster Welfare Information" system for chapters to provide "safe and well" status information to the families and loved ones of disaster victims.
- Response Center Network expansion for a group of chapters that staff the 1-866-GET-INFO line. We will have 250 simultaneous workers in chapters nationwide supporting the information center's work.
- An enhanced Volunteer Match Portal to help manage expectations of large numbers of spontaneous volunteers and provide updated guidance.
- Improved chapter advance procedures and new monitoring and control processes to support the use of the CAC.
- A national Disaster Field Supply Center warehousing system with increased capacity and more critical supplies. We are greatly expanding our warehouse space from about 300,000 square feet to over 1,000,000 square feet (new warehouses are located in Montgomery, AL; Reserve, LA; Charlotte, NC; Pensacola, FL; Reno, NV; Atlanta, GA; Richmond, VA; and Hattiesburg, MS).
- Pre-positioned redundant communications equipment such as phones, computers, radios, and satellite equipment in 21 cities in nine coastal states.

Closing Remarks

In summary, despite the problems that challenged us all last year, I am extremely proud of the actions of the more than 225,000 American Red Cross workers in responding to the devastating effects of Katrina, Rita, and Wilma.

I am confident that the actions we have taken internally and in conjunction with our federal, state, local, other NGO, and private sector partners will result in an even better response for the next disaster.

Thank you for your time and attention.

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APPENDIX A: High-level Chronology of Events

Year	Event	Outcome/Results
1881	Michigan Forest Fires	Clara Barton provides food, clothing, medical supplies, and lumber for disaster victims.
1905	Congressional Charter	Charter recognized the role of the Red Cross in disaster relief “to continue and carry on a system of national and international relief in times of peace and apply same in mitigating the sufferings caused by pestilence, famine, fire, floods, and other great national calamities, and to devise and carry on measures for preventing the same.”
1906	San Francisco Earthquake	ARC provides loans to victims. Court decision found against the Red Cross stating that loaning money which had been donated for relief was “improper”. BoG adopted a policy making only grants, not loans to disaster victims.
1906-1913	50 domestic disasters	ARC assisted with emergency needs, repairing and rebuilding homes, providing household furniture and rehabilitating small businesses. Policies and program guidance continued to evolve and included: <ul style="list-style-type: none"> • Whatever is done to meet family needs advance the welfare of both the individual and the community. • Relief is proportioned to need, not loss. • The Red Cross should make greatest possible use of community resources.
1918	Influenza Epidemic	ARC adjusted the disaster program and recruited 18,000 nurses, furnished equipment and supplies for hospitals, convalescent homes and convalescent kitchens.
1919+	Local disasters	Disaster preparedness committees formed and program expands to chapters providing assistance to local calamities. Affected chapters established local advisory committees to help ARC carry out its relief obligations.
1930-1933	Depression	ARC responds to President’s request and participates in drought relief by distributing excess government foods and supplies and acting as a government agent through the signing of the Agency Service Agreement.
1964	Alaskan Earthquake	First individual government assistance provided to disaster victims.
1965	Hurricane Betsy	Government individual assistance expanded. ARC chapters authorized to provide relief assistance during civil disorders, if necessary.
1968	Civil Disorders	NHQ suggested that chapters plan for civil disorders as part of their emergency relief function.
1969	Hurricane Camille	Disaster Relief Act of 1969 expands the scope of federal individual assistance, adds grants, food stamps, unemployment compensation.
1976	E. Mississippi Tornadoes and Typhoon Pamela	ARC resumes its additional assistance role (rehabilitation work) as federal individual assistance is not timely. BoG establishes a special Disaster Services program review subcommittee to determine if the program was adequate for the immediate future and how it would be financed.

1982-1983	Unprecedented disaster activity	\$33 million exhausts Disaster Services budget and Disaster Revolving Fund.
1995	Oklahoma City Bombing	Red Cross response includes creation of a long term mental health counseling and referral program for victims' families and local residents. In addition, we created an off-site mental health recovery zone for workers and first-responders.
2001	September 11 Terrorist Attacks	Provided financial assistance to victims families and to those affected economically. Post-event review led to establishment of greater transparency in accounting practices and changes in our fundraising approach to communicate needs more clearly and immediately to the public.